State of California **Employment Training Panel**

M e m o r a n d u m

To:	Panel Members	Date:	March 27, 2003
From:	Diana Torres, Manager Peter DeMauro, General Counsel	Analyst:	S. Godin
Subject:	One-Step Agreement for **Pacific Marine Sheet Metal Corporation DBA Southwest Fabricators** (www.Southwest Fabricators.com)		

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Promotion of California's Manufacturing Workforce
Moving to a High Performance Workplace
Stimulating Imports/Exports
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full Time Employees:
  - Company Wide: 180
  - In California: 180
- Fringe Benefits: Yes
- Union Representation: Yes
- Name and Local Number of Union representing workers to be Trained: Sheet Metal Workers' International Association Local Union No. 206

CONTRACT:

- Program Costs: $83,200
- Substantial Contribution: $0
- Total ETP Funding: $83,200
- In-Kind Contribution: $146,850
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Diego
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

AMADA Training School, Buena Park, California ($7,000 for Manufacturing Skills training)

Coulson Pace Industries, Corona, California ($20,000 for Manufacturing Skills training)

Dale Carnegie Center of Excellence, San Diego, California ($5,000 for Continuous Improvement Training)

D & H Consulting, Rancho Santa Fe, California ($10,000 for Continuous Improvement Skills training)

New Horizons Learning Center, San Diego, California ($7,200 for Computer Skills training)

San Diego Employers Association, San Diego, California ($5,000 for Continuous Improvement Skills training)

THIRD PARTY SERVICES:

The applicant states that consultant services have not and will not be used.

NARRATIVE:

Southwest Fabricators (SW Fabricators) is eligible for funding under the out-of-state competition provisions outlined in Title 22, California Code of Regulations, Section 4416(b) for companies classified as manufacturers.

Located in San Diego, California, Pacific Marine Sheet Metal Corporation DBA SW Fabricators is a privately owned precision sheet metal fabricating and assembly facility with 180 full-time employees. This sheet metal working enterprise initially began in 1905 as San Diego Sheet Metal Works to serve the marine industry as a ship repair subcontractor, which was its primary business through 1990. As defense spending decreased and the demand for marine work declined, the company diversified into new markets and the focus began to shift from military to commercial accounts. Today the majority of SW Fabricators' business is derived from contract manufacturing services to Original Equipment Manufacturer (OEM) customers throughout the Western United States. Examples of the company's primary products include high-end manufacturing enclosures and cabinets for the gaming industry, data storage devices, suspension system components and computer housings for harsh factory environments.

Company representatives state that the metal fabrication industry is highly competitive. Price pressures from out-of-state and foreign competitors coupled with new manufacturing technologies make it difficult to maintain market share. SW Fabricators has determined that it must shift to a high performance workplace by implementing a lean manufacturing model. As a company it must learn to operate at optimum efficiency by implementing practices that support customer demand for faster delivery of products at a lower cost. Inventory and waste must be reduced and production quality improved. To lay the foundation for this transition, it recently expanded its manufacturing facility by 22,000 square feet and invested more than $3,000,000 in

NARRATIVE (continued):

new equipment such as press brakes, punch presses and robotic welders. SW Fabricators states that this new technology requires a much higher skill level than what was needed for general sheet metal work and a skills gap now exists with the company's frontline workers.

As a family-owned business, SW Fabricators has traditionally operated with a "top down" management style. Its goal is to change the way it does business by empowering its frontline workers with problem solving, decision-making and product innovation skills. Workers need to understand how a decision or a task completed by one individual or department affects all other facets of the business. It must pull together the "pieces" that each department contributes through a standardized quality system and reorganize its internal workflow processes to increase efficiency and productivity. Company representatives state that if it does not adopt this new business model, the company will lose its competitive edge to out-of-state companies located in Arizona, Nevada, Oregon, Washington and Illinois.

To meet the aforementioned challenges, SW Fabricators proposes to train 158 frontline workers and 2 supervisors in a menu style curriculum consisting of 40 hours of Continuous Improvement topics, specific Manufacturing processes and Computer Skills such as Computer Aided Design and Machining (CAD/CAM) and desktop productivity. Training will be provided by outside vendors and in-house trainers.

The contractor will provide project administration.

Continuous Improvement training will equip workers with the skills to understand team-oriented productivity, set progressive goals and assume greater responsibility throughout the production process. SW Fabricators expects that the training will enable them to fully incorporate the lean manufacturing philosophy into its production and administrative areas resulting in waste reduction and improved cycle times.

Manufacturing Skills training will provide frontline workers with the skills to operate newly purchased production equipment such as the robotic welding systems. Cross-training in advanced manufacturing processes, various product lines, equipment maintenance and best manufacturing practices will enable employees to become multi-skilled. Through cross-training, the company anticipates that these individuals will be able to perform multiple tasks, enable the company to operate through business surges and cover day to day absences of key employees.

Computer Skills training will be primarily provided to the engineering department personnel; however, staff in all occupations may receive training in software applications in factory automation and desktop productivity. The curriculum is designed so the engineering department personnel will acquire the requisite skills to plan jobs more efficiently; beat competitor's bids and continue to meet increasing customer demands for cost efficiency and quality. Additionally, many frontline workers possess minimal computer skills. The computer skills training is designed to train the company's workers to achieve the competencies to effectively manage their work processes and the information that follows.

Supplemental Nature of Training

SW Fabricators has certified that the proposed training in Continuous Improvement, Manufacturing and Computer Skills is new training and supplemental to the training that the company provides in the normal course of its business. Basic production training on how to do a specific job and to operate equipment properly has been taught through on-the job training. SW Fabricators does provide new employee orientation and safety training when needed. The Sheet Metal Workers' International Association Local Union No. 206 does not provide any precision metal fabrication training for its production worker classification. A production worker typically specializes in one process. With ETP funding, trainees will be cross-trained on more than one machine and process. Cross-training has been minimal prior to this training program.

The proposed training is in addition to the company's current training and is designed to address the new skill requirements related to the flow manufacturing initiative. Without the assistance of ETP, SW Fabricators would be unable to provide the requested training in the manner being proposed.

In-Kind Contribution

SW Fabricators' in-kind contribution to this program is approximately $146,850 which consists of $95,850 in trainee wages paid while in training; and $51,000 for training materials (books and supplies) and excess cost of subcontractors providing training at a higher cost than ETP is funding.

COMMENTS:

Managers

With the exception of 2 supervisors (1.25 percent of the trainee population), all retrainees meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400(ee).

Collective Bargaining Agreement

This proposal has received written support from the Sheet Metal Workers' International Association Local Union No. 206. All curriculum topics and proposed training for the represented employees have been reviewed and approved by union officials.

Request for Waiver to Turnover Rate

In accordance with Title 22, CCR Section 4417(a) ("Secure Job), which states:

"The Panel shall fund training for employment that is stable. The employer's turnover rate shall not exceed 20 percent annually for the company facility where training is being requested. The Panel may accept a higher turnover rate if the employer provides evidence that the proposed training will significantly decrease the turnover rate, or the employer has experienced a singular reduction in force, or other occurrence which adversely affected the turnover rate in the last calendar year, or if industry data supports a higher turnover rate."

In accordance with the above regulation, SW Fabricators is requesting a waiver of the maximum 20 percent turnover rate requirement. SW Fabricators experienced a turnover rate of 34.9 percent in calendar year 2002. The company's turnover rate was 28.5 percent in calendar year 2001 and 22 percent in calendar year 2000.

The company states that as a supplier to OEM's, it does not manufacture its own product line and is 100 percent dependent upon customer demand. SW Fabricators' primary business is derived from the gaming industry. After the events of September 11, 2001, capital investment in the gaming industry dropped dramatically as investors decided to maintain a status quo on equipment rather than expand. With a hold on gaming expansion, customer orders for gaming enclosures declined dramatically. Consequently, between September 11, 2001 and December 2001, SW Fabricators' business had decreased by 40 percent (from that of the previous year) and customer orders remained sluggish through the first two quarters of 2002. The huge drop in sales volume resulted in a decreased labor demand. The company was forced to layoff 55 employees during that time which decreased its workforce by 30 percent.

Within the last 6 months, the company has begun to regain lost sales volume and has increased the size of its workforce to its former numbers. The turnover rate from June 2002 through December 2002 has been 7.5 percent. The company has also taken proactive steps to increase the retention of its employees. Additional sales personnel have been hired in an effort to diversify the company's customer base so sales volume is not dependent on one specific industry. Cross-training the production workers with the assistance of ETP funds will also promote secure employment. Once cross-trained the company's core production workers will have the multiple skill sets needed to move from one fabrication job to another based on production needs**.**

The contractor requests that ETP: 1) grant a waiver to its requirement that an employer's turnover rate shall not exceed 20 percent annually for the company facility where training is being requested; and 2) based upon the reported industry average turnover rate of 22-27 percent, accept a turnover rate of 22 percent or less during the final 12 months of the ETP Agreement. Officials from the Sheet Metal Worker's International Association Local Union No. 206 have stated that the industry turnover rate for fabrication sheet metal workers in California averages 22–27 percent.

Request for Waiver to Turnover Rate (continued)

The applicant signatory has stipulated that if SW Fabricators does not attain a turnover rate of 22 percent or less in the final year of the ETP Agreement, the final 25 percent progress payment will be forfeited. In addition, SW Fabricators has agreed to a 120-day retention period instead of the customary 90-day retention period.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if the Panel determines that the turnover rate waiver request is reasonable and funding is available, based on the stated need of SW Fabricators to retrain its current workers. This recommendation is based on the company's stated need to provide its employees with high performance workplace skills to remain competitive and grow by providing quality products that meet or exceed customer expectations.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job 1 RETRAINEE	MENU Continuous Improvement Manufacturing Skills Computer Skills	160	40	0	0	$520	*$11.18 - $29.87

	Range of Hourly Wages *$11.18 - $29.87
	Prevalent Hourly Wage $15.00
	Average Cost per Trainee $520

Health Benefit used to meet ETP minimum wage: *Health benefits in the amount of $2.15 per hour will be used to meet the ETP minimum hourly wage of $11.18 for San Diego County.	**Turnover Rate** 35%	**% of Mgrs & Supervisors to be trained:** 1.25%

PACIFIC MARINE SHEET METAL CORPORATION
DBA: SOUTHWEST FABRICATORS

MENU CURRICULUM

Hours
40 Hours Class/Lab

Trainees will receive any of the following:

CONTINUOUS IMPROVEMENT

- Continuous Improvement Teams/Lean Enterprise
- Kaizen Principles, Instruments and Methodology
- Continuous Flow
- Process Measurement Tools
- Operation Standards
- Empowerment and Delegation
- Communication and Effective Listening Skills
- Strategic Leadership Skills
- Project Management
- Decision-Making Skills
- Parts and Assembly Modeling
- Observation and Data Gathering Techniques
- Creation and Implementation of Action Plans

COMPUTER SKILLS

- User Interface
- 3-D Application and Unfolding
- Part Modeling & Assembly
- Sheet Metal Application and Documentation
- Managing Model Data
- Legacy Data

MANUFACTURING SKILLS

Sheet Metal Applications

- Advanced Sheet Metal Skills
- Materials for Sheet Metal Applications
- Fabrication and Installation Skills for Sheet Metal
- Planning, Scheduling & Implementation of Sheet Metal Jobs

MANUFACTURING SKILLS (continued)

Punch Press Operations

- Punching Hydraulics Numeric Control System (PHNC)
- PHNC Entry, Editing & Testing Parameters
- Punching Mode Parameters
- Air Blow Tooling
- Tool Information Files
- Chiller-Maintenance and Trouble Shooting
- Machine Start-Up and Measuring Tools
- Vipros Punch Press Set-Up
- Control Review
- Slitting, Marking & Knockout
- Control Management